

## Message Text

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ACTION EB-07

INFO OCT-01 ARA-10 ISO-00 XMB-02 ERDA-05 AID-05 CEA-01

CIAE-00 COME-00 EPG-02 DODE-00 FPC-01 H-01 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

OES-07 SP-02 SS-15 STR-04 TRSE-00 ACDA-07 FEA-01

AF-10 EA-07 EUR-12 NEA-10 IO-13 FRB-03 OPIC-03

LAB-04 SIL-01 /165 W

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R 082138Z JUN 77

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 2693

INFO ALL USCONS MEXICO BY POUCH

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DEPARTMENT PASS EXIMBANK FOR CRAFTON

E.O. 11652: AGDS 12-31-77

TAGS: ENRG, EALR, EFIN, BENC, MX

SUBJECT: PEMEX PLANS FOR GAS PIPELINE TO U.S.

REF: MEXICO 8837

1. SUMMARY: PEMEX EXPECTS TO HAVE 1BCFD OF GAS AVAILABLE FOR EXPORT IN JANUARY 1979, AND 2BCFD BY 1982. PROPOSED THAT PIPELINE FINANCING BE BORNE BY U.S. FIRMS PURCHASING GAS. TENNECO AND BECHTEL HAVE THE INSIDE LINE BUT NO CONTRACTS HAVE BEEN SIGNED. \$700 MILLION OF THE \$1 BILLION COST WILL BE FOR IMPORTED EQUIPMENT. WE UNDERSTAND PROPOSED DEAL WOULD SUPPLY QUANTITY OF GAS EQUIVALENT TO ALASKA'S. END SUMMARY.

2. AT INVITATION OF EMBASSY, CHARGE, ECON COUNSELOR, AND PETOFF DISCUSSED STATUS OF PIPELINE WITH THREE SENIOR OFFICIALS OF TENNESSEE GAS TRANSMISSION (TENNECO). KEY LIMITED OFFICIAL USE

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FIGURES ARE E. WAYNE HOPKINS, EXECUTIVE VICE PRESIDENT FOR FINANCE, AND JACK RAY, COMPANY PRESIDENT WHO WAS NOT ABLE TO ATTEND. TENNECO HAS COMPLETED PLANS FOR DESIGN OF PIPELINE AND THESE ARE NOW BEING EVALUATED BY PEMEX. BECHTEL IS ALSO CHECKING THE DESIGN AND WILL PROBABLY OVERSEE WORK DONE BY 5 OR 6 MEXICAN SUBCONTRACTORS. NO CONTRACTS HAVE BEEN SIGNED YET.

3. WITH TENNECO'S PROPOSAL, COST OF THE LINE WILL BE ABOUT \$1.05 BILLION; FINANCING WILL BE ARRANGED BY TENNECO AND TEXAS EASTERN TRANSMISSION COMPANY (TETCO) AGAINST FUTURE DELIVERIES OF GAS. 48-INCH PIPE WILL COST ABOUT \$400 MILLION, COMPRESSORS, TURBINES, PIPE LAYING MACHINERY AND ANCILLARY EQUIPMENT WILL RUN ABOUT \$300 MILLION, AND LOCAL CONSTRUCTION COSTS ABOUT \$350 MILLION. ALL PIPE AND MOST EQUIPMENT WILL BE IMPORTED. SOME SURPLUS ALASKA PIPE-LINE CONSTRUCTION EQUIPMENT MAY BE LEASED.  
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4. TENNECO IS PRESSING HARD FOR THE MAXIMUM USE OF U.S. SUPPLIES. HOWEVER, GERMAN PIPE IS ABOUT 30 PER CENT CHEAPER AND DELIVERIES CAN BEGIN SOONER SO SOME OF THE PIPE MAY BE PURCHASED THERE. TENNECO IS ARGUING THAT SINCE THE U.S. WILL PROVIDE THE FINANCING AND PURCHASE THE GAS, ALL OR NEARLY ALL OF THE EQUIPMENT SHOULD BE OF AMERICAN ORIGIN.

5. LINE WILL ORIGINATE AT CACTUS, CHIAPAS, WHERE THE BULK OF PEMEX'S SWEETENERS ARE LOCATED. CONSTRUCTION SHOULD BEGIN IN SEPTEMBER OR OCTOBER 1977 AND 1BCFD IS EXPECTED TO BE FLOWING BY JANUARY 1979. TETCO HAS EXISTING CONNECTIONS AT REYNOSA, TAMAULIPAS, AND TENNECO HAS LINES NEARBY. PEMEX EXPECTS TO HAVE 2BCFD FLOWING BY 1982 AND RATED CAPACITY WILL BE 2.5BCFD. AMOUNT OF GAS ACTUALLY PUMPED WILL DEPEND ON THE SUCCESS OF PEMEX'S DRILLING PROGRAM, THE QUANTITY OF GAS ASSOCIATED WITH NEW CRUDE PRODUCTION PARTICULARLY ON THE CONTINENTAL SHELF, AND THE RATE AT  
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WHICH SWEETENING PLANTS CAN BE COMPLETED. TENNECO OFFICERS TELL US QUANTITY CONTEMPLATED ROUGHLY EQUIVALENT TO THAT TO COME FROM ALASKA'S NORTH SLOPE.

6. TENNECO SAID THAT ASSUMING THAT THE FPC WILL ALLOW A PRICE OF \$2.50 PER MILLION BTU, GAS DELIVERIES SHOULD YIELD PEMEX \$850 MILLION ANNUALLY PER BCFD DELIVERED. PRICE WILL PROBABLY BE RELATED CLOSELY TO THE COST OF HEATING OIL IN NEW YORK CITY SINCE THIS IS THE CLOSEST COMPETITIVE PRODUCT. HOW MUCH OF THIS REVENUE WILL ACCRUE TO PEMEX AND HOW MUCH TO GOM IS NOT KNOWN, BUT THE CURRENT TAX ON CRUDE EXPORTS IS 50 PERCENT. IN ANY CASE, PEMEX SHOULD BE ABLE TO REPAY ITS LOANS IN A RELATIVELY SHORT TIME SINCE EVENTUAL SALES COULD RUN UP TO \$2 BILLION ANNUALLY.

7. PEMEX IS NOT WORRIED ABOUT BEING UNABLE TO FINANCE THIS AND OTHER PROJECTS BECAUSE OF LIMITATIONS IMPOSED ON GOM BORROWING BY THE IMF. THEY FEEL THAT, IF NECESSARY, THEY CAN GET THE IMF CEILINGS RAISED BECAUSE OF THEIR ABILITY

TO QUICKLY GENERATE MASSIVE NEW EXPORT EARNINGS.

8. ACCORDING TO TENNECO AND ASSUMING THE DEAL CONTINUES TO DEVELOP AS CURRENTLY ENVISIONED, PEMEX HAS COMMITTED 25 PERCENT OF THE GAS TO TETCO AND THE SAME PERCENTAGE TO TENNECO. THEY MAY SELL THE BALANCE TO ONE OR TWO OTHER COMPANIES OR DOUBLE THE SHARES OF TETCO AND TENNECO.

9. EMBASSY COMMENT: PEMEX MAY BE ABLE TO MEET PROPOSED TARGET DATE OF JANUARY 1979 SINCE THE NECESSARY EQUIPMENT SEEMS TO BE AVAILABLE. IT ALREADY HAS EXISTING RIGHTS OF WAY ALONG ABOUT HALF OF THE PROPOSED ROUTE AND THE TERRAIN ALONG THE COAST IS RELATIVELY FLAT AND TEMPERATURES MODERATE WHICH WILL FACILITATE CONSTRUCTION AND OPERATION.

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PLENTY OF HIGHLY SKILLED WELDERS ARE AVAILABLE IN TEXAS NOW THAT THE ALASKA PIPELINE IS FINISHED. EMBASSY HAS SOME DOUBTS ABOUT LIKELY SUCCESS OF PUSHING U.S. 48-INCH PIPE IF DIFFERENTIAL WITH GERMAN PIPE IS 30 PERCENT AND DELIVERY OF LATTER PROMPT, BUT HAS OFFERED TENNECO ITS ASSISTANCE. THOMPSON

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Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009